

STATE PENSION REVIEW BOARD

Michelle Kranes, Project Manager

Agency at a Glance

The State Pension Review Board (PRB) oversees state and local public retirement systems through the ongoing assessment of their actuarial and financial soundness. The agency also provides policymakers and the public with information on pension-related topics. PRB's main functions include:

- reviewing state and local retirement systems' financial and actuarial condition, and highlighting potential problems;
- collecting and aggregating information on Texas public retirement systems and relevant pension-related topics for the Legislature and the public;
- assessing the actuarial impact of proposed legislation that affects public pension benefits or contribution levels; and
- offering education for public retirement system trustees and administrators.

Summary

Recognizing the long-term financial liabilities associated with traditional defined benefit public pensions, the Legislature created the State Pension Review Board in 1979 to monitor Texas' local public pensions to help avoid funding problems before they become insurmountable. Through PRB, the State takes a light approach to overseeing an array of local public pensions, reflecting the strong Texas tradition of local control. While statute exempts the statewide retirement systems from most PRB oversight, they voluntarily submit to its watchful gaze. The agency cannot force action by local retirement systems. Instead PRB works to shine light on potential problems affecting the ability of traditional defined benefit pensions to meet obligations to members. As long as Texas has traditional defined benefit public pensions, the State needs ways to monitor these plans and work with them to help ensure they remain financially and actuarially sound without unnecessarily burdening taxpayers. PRB has the resources necessary to analyze public pensions across the state, and it provides a public forum to help hold local pensions accountable.

The Sunset review of PRB identified ways in which the agency has not been focused on its core mission of overseeing the actuarial soundness of traditional defined benefit plans. The agency has long struggled to gain reporting compliance from other types of retirement plans, even though those

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plans do not pose enough risk to warrant state oversight beyond basic data collection. Conversely, the Sunset Commission found that PRB lacks critical information from traditional defined benefit plans to allow it to fully evaluate those plans that do present serious funding risks to their members, sponsors, and taxpayers. The Sunset Commission also found opportunities for PRB's delivery of educational resources to reach plans with fewer resources and a greater need for assistance.

Issue 1

Texas Has a Continuing Need for the State Pension Review Board.

In a state with many scattered local public pensions, PRB serves as a central source of objective pension information, bringing light to financial issues before they become unmanageable. The Board provides a public forum for holding pension systems and their sponsoring governmental entities accountable for their decisions, and the staff provides pension expertise that is especially important as the policy debate about the future of public pensions grows louder. No other state entity provides this needed mix of structure, focus, and expertise to adequately perform this job.

Recommendation

Change in Statute

1.1 Continue the State Pension Review Board for 12 years.

This recommendation would continue the State Pension Review Board as an independent agency responsible for overseeing Texas' public retirement systems and providing pension-related information.

Issue 2

Many Pension Plans Lack Significant Risk, Necessitating Less PRB Oversight.

Since 1979, when the Legislature created PRB, the pension landscape in Texas has shifted from mostly defined benefit pension plans to a nearly even mix of defined benefit and defined contribution plans. Neither defined contribution nor pay-as-you-go defined benefit plans pose the same long-term funding risks as traditional defined benefit plans, which guarantee a monthly benefit for life and can generate large unfunded liabilities for taxpayers. However, state law requires defined contribution and pay-as-you-go plans to file the same reports as traditional defined benefit plans, even though PRB cannot use much of the information, as its oversight tools are not designed for these plans.

Recommendation

Change in Statute

2.1 Exempt defined contribution and pay-as-you-go defined benefit public retirement plans from PRB reporting requirements except for registration and basic plan information.

This recommendation would exempt defined contribution and pay-as-you-go defined benefit plans from submitting membership reports, investment policies, annual audited financial reports, actuarial valuations, and sponsoring entity audits. These plans would still be required to register with PRB, provide summary plan information, and provide updates to both.

Issue 3

Pension System Reporting Requirements Do Not Provide Important Data Needed to Detect Problems.

PRB monitors public retirement systems' financial condition to expose problems in time to address them before a system's ability to pay benefits is affected. The agency does this by monitoring and analyzing a variety of statutorily required reports submitted by the systems, and may request a system and its sponsor appear before the Board to explain identified problems and how they plan to address them. However, statute does not require public retirement systems to provide the agency with timely updates of changes to their plans or other information necessary to ensure the success of PRB's monitoring role. On the other hand, PRB collects quarterly information from retirement systems that it cannot use to detect financial problems.

Recommendations

Change in Statute

3.1 Require public retirement systems to provide PRB a summary of significant plan changes within 30 days of their adoption.

This recommendation would require public retirement systems to provide PRB a summary of plan changes that affect contributions, benefits, or eligibility, within 30 days of their adoption, instead of the 270 days in current law.

3.2 Require public retirement systems that conduct experience studies to submit copies of the studies to PRB.

This recommendation would require a retirement system that conducts an experience study to provide PRB a copy within 30 days of the adoption of the study. The four largest statewide systems that are already exempt from most PRB reporting requirements would also be exempt from this requirement.

3.3 Clarify in statute that sponsoring entity audits do not satisfy retirement systems' annual financial reporting requirements.

While statute already requires an audit, this recommendation would clarify that public retirement systems would have to conduct their own audits, and cannot submit their sponsoring entity's audit to satisfy their statutory annual financial reporting requirement. In conjunction with the recommendation in Issue 2, this change would only apply to traditional defined benefit plans.

Management Action

3.4 PRB should no longer require retirement systems to submit quarterly financial data.

The Board should adjust rules as necessary to stop requiring plans to submit unnecessary quarterly reports.

Issue 4

The Agency's Training Efforts Are Not Reaching Public Retirement Systems With the Greatest Needs.

Statute authorizes PRB to provide training for public retirement system trustees and administrators, but implies an approach that consists of conferences and seminars. PRB's primary reliance on an annual seminar to deliver training limits the agency's ability to reach all public retirement systems, especially smaller systems with few resources and those located far from Austin.

Recommendations

Change in Statute

4.1 Clarify the agency's authority to provide training in a way that is accessible to all public retirement system trustees and administrators.

This recommendation would clarify PRB's authority to provide training to public retirement systems through a delivery method that is cost-effective and accessible to all systems, not just through its current annual seminar. Under this recommendation, the agency would consider using web-based tools, such as webinars, and archive training sessions to make them available on its website.

Management Action

4.2 Direct PRB to develop training content that more directly assists public retirement systems with managing their plans.

PRB should develop training content that is Texas-specific and relevant to the day-to-day management of plans. Best practices should be made available on the agency's website. This training content should include topics such as asset allocation, plan design and management, contracting, and updates to federal and state law.

Issue 5

The State Pension Review Board's Statute Does Not Reflect Certain Standard Elements of Sunset Reviews.

Among the standard elements considered in a Sunset review are Across-the-Board Recommendations by the Sunset Commission as standards for state agencies to reflect criteria in the Sunset Act designed to ensure open, responsive, and effective government. PRB's statute contains most Across-the-Board provisions but does not include standard provisions relating to conflicts of interest or alternative rulemaking and dispute resolution. The Texas Sunset Act also directs the Sunset Commission to recommend the continuation or abolishment of reporting requirements imposed on an agency under review.

Recommendations

Change in Statute

5.1 Apply standard Across-the-Board Recommendations to the State Pension Review Board.

- **Conflict of interest.** This provision would prohibit a board member or high-level agency employee from being an officer, employee, or paid consultant of a pension-related professional trade association. The provision would also prohibit a person from serving on the Board or as a high-level employee if the person's spouse is an officer, manager, or paid consultant of a pension-related professional trade association.
- **Alternative dispute resolution.** This provision would ensure that the agency develops and implements a policy to encourage alternative procedures for rulemaking and dispute resolution that conforms, to the extent possible, to model guidelines by the State Office of Administrative Hearings. The agency would provide internal training as needed and collect data concerning the effectiveness of these procedures.

5.2 Continue requiring the State Pension Review Board to submit its biennial report to the Legislature.

This recommendation continues the existing requirement in law for the agency's biennial report to the Governor and the Legislature, though no statutory change is needed to continue this reporting requirement.

Fiscal Implication Summary

These recommendations would not have a significant fiscal impact to the State. Other impacts are summarized below.

Issue 2 — Exempting defined contribution and pay-as-you-go defined benefit plans from most PRB reporting requirements would create a small administrative savings for the agency.

Issue 3 — Clarifying that retirement systems should submit their own financial audit to PRB instead of submitting their sponsor's audit could result in increased costs for the systems. However, the cost of a financial audit for these plans, which have millions of dollars in assets, would be relatively small.

Issue 4 — Authorizing PRB to provide education and training in a way that is accessible to all public retirement systems using internet technology would not create a need for additional funding. The agency could continue to collect fees for its seminars and redirect some of this funding to cover the cost of web-based training tools.

